

*Translation from Danish by Danske Bank of a statement dated 26 October 2020 from the Danish Financial Supervisory Authority (Finanstilsynet). In case of discrepancies, the Danish version prevails.*

**The Danish Financial Supervisory Authority**

26 October 2020

## **Statement on orders issued to Danske Bank A/S in the market and counterparty credit risk areas**

As part of its ongoing supervision of Danske Bank A/S, the Danish Financial Supervisory Authority (the FSA) has reassessed the bank's permission to calculate the own funds requirements for market and counterparty credit risks by means of internal models. Regularly, and at least every three years, the FSA must check that approved internal models still meet the requirements.

### **Summary and assessment**

Danske Bank A/S has been granted permission to use a Value-at-Risk model (VaR model) and an internal model for increased default and migration risks (IRC model) to calculate the own funds requirements for general and specific risks in the market risk area. The FSA assesses that the bank may continue using the internal models to calculate the own funds requirements in the market risk area.

However, the FSA has observed that the bank does not complete a sufficiently rigorous stress testing programme that aims, for instance, at identifying and measuring risks that are not adequately captured by the internal models. The bank has been ordered to expand its stress testing programme.

Danske Bank A/S has also been granted permission to use an internal model (IMM model) to calculate its exposure to customers, businesses, etc. with whom/which the bank has entered into contracts on derivative financial instruments. The FSA assesses that the bank may continue using the internal model to calculate its exposure to counterparty credit risk.

As part of the model, the bank must identify derivative financial instruments that are not easy to replace. The FSA observed that the bank applies a simplified method to identify these instruments, and, in this connection, the bank has been ordered to improve its method to identify whether instruments are easy to replace.

At 31 December 2019, Danske Bank A/S calculated its solvency need ratio at 12.7%. The reassessment has not given rise to any change in the calculated solvency need ratio.